



# Two-Pot System Newsflash!

## 13 Frequently Asked Questions and Answers...

September 2023

Moving Towards A Better Future



Vested Pot



Savings Pot



Retirement Pot

### 1. What is the Two-Pot system?

Two-Pot system refers to the proposed changes to the Pension Law in South Africa that are intended to marry the opposing concepts of access and preservation of retirement fund benefits. On the one hand, ensure that members retire better, preserving their benefits until retirement (not taking their benefits in cash when they leave employment) and forcing members to take a pension income at retirement. On the other hand, Treasury recognises that members may need cash while they are still employed and members of a fund.

Treasury issued an updated version of the two-pot proposals on 9 June 2023. Draft amendments to the Pension Funds Act have also been released by Treasury.

### 2. When will this come into effect?

On 1 March 2024 all funds in the country must amend the Rules of their funds to allow for these changes. The rule amendments must be approved by the FSCA and therefore, it may take some time after the 1st of March 2024 for funds to comply with these changes.

### 3. What happens on 1 March 2024?

Members of the Transport Sector Retirement Fund, who are active members of the Fund (and younger than 55 years) on 29 February 2024 will be protected and their current benefit value in the Fund will be ring-fenced in a "vested pot". This means that all members of the Fund who are younger than 55 and were active members on 29 February 2024 will have their Fund Credit protected in the "vested pot". The money in the "vested pot" can always be taken in cash at withdrawal and at retirement.

From 1 March 2024 all new contributions to the Fund will be split between the new "savings pot" and the new "retirement pot".

### 4. What happens to members who are 55 years and older

Members of the Fund who are older than 55 years on 1 March 2021 will also have their Fund Credit ring-fenced in a "vested pot". But these members will be able to continue to make contributions to their "vested pot" and will be able to take the money in the "vested pot" in cash when they resign and retire.

These members will have to apply to the Fund in writing if they wish to make contributions to the new "saving and retirement pots".

### 5. What is the "Savings Pot"?

Fund members will be required to contribute an amount of one-third (about 33%) of their total retirement fund contributions, after all deductions have been made, to the "savings pot/component". The amounts contributed to the "savings component", together with fund return/growth, will be available for withdrawal by the fund member in the form of a "savings withdrawal benefit" once a year before retirement.

Members will be able to make a "savings withdrawal" from the "savings component" without having to resign from employment or retire from the fund. Members will be allowed to make a single withdrawal every 12 months. The minimum withdrawal amount is R2 000 and there is no limit on the maximum amount a member is allowed to withdraw.

This "savings component" may always be paid in cash when you resign or retire (provided that you did not make a "savings withdrawal" in the preceding 12 months).



### 6. Will I pay tax on "savings withdrawals"?

Yes, withdrawals from the "savings component" will be added to fund members' taxable income and taxed as normal income at their marginal rates. This means it will not be taxed as a retirement fund lump sum withdrawal benefit.

### 7. How long will I have to wait to make my first "savings withdrawal" from the Fund?

On 1 March 2024 you will start making contributions to the "savings pot" and only one third of your contributions will go to this pot. So it will take some time before you have the minimum withdrawal amount of R2000.

It is for this reason that a proposal on "Seeding Capital" has been made.

Government is proposing that 10% or a maximum of R25 000 be seeded or transferred from your "vested pot" to your "savings pot" on or after 1 March 2024, so that you can immediately make a savings withdrawal.

### 8. Can I make a R25 000 "savings withdrawal" after 1 March 2024?

Only if your "vested pot" has a value of at least R250 000 on 1 March 2024, because you are only allowed to make a 10% withdrawal to a maximum amount of R25 000.

And if your "vested pot" value is R500 000 you are still only allowed to make a R25 000 withdrawal.

### 9. Can I make a R2000 "savings withdrawal" after 1 March 2024?

Only if your "vested pot" has a value of at least R20 000 on 1 March 2024.

### 10. What if my "vested pot" value is R50 000?

If the value of your "vested pot" is R50 000 on 1 March 2024 you will be able to make a 10% withdrawal of R5000 but you can decide to take any amount between the R2000 minimum "savings withdrawal" and the R5000 (10% of your "vested pot" value).

### 11. So I can make a "savings withdrawal" every 12 months?

Yes, but you are cautioned to think carefully before making a withdrawal as it could have a negative impact on your expected amount of money available as a lump sum at retirement, as you will forfeit compounded investment return on the amounts withdrawn.

Also remember that you will pay tax at marginal rates on each withdrawal.

### 12. What is the "retirement pot"?

Two-thirds (about 67%) of your contributions from 1 March 2024, after all deductions have been made, must be allocated to your "retirement pot/component". **The "retirement component" may only be accessed at retirement and may not be paid in cash.**

The "retirement pot" (contributions plus investment returns/growth) will have to be transferred to an annuity or new employer's "retirement pot" should a member resign from their employer, as **it may not be taken in cash. At retirement it must be invested in a pension plan/annuity to pay a monthly pension to the member.**

The full amount in the "retirement component" may however be commuted as a lump sum if its full value, plus two-thirds of the value in the member's "vested component" does not exceed R165 000. This amount will be calculated on a "per fund" basis. In such an instance, the lump sum accruing to the member will be taxed as a retirement fund lump sum benefit.

### 13. What will I get at retirement?

**If you were an active member of the Fund and younger than 55 on 29 February 2024**

Your "vested pot" will be paid in cash  
PLUS  
Your "savings pot" will be paid in cash  
PLUS  
Your "retirement pot" will be used to buy a pension income for life.

**If you were an active member of the Fund and 55 or older on 1 March 2021**

Your "vested pot" will be paid in cash  
Unless you decide to participate in the Two-Pot system and apply to the Fund in writing, then you will also receive:  
Your "savings pot" that will be paid in cash  
PLUS  
Your "retirement pot" will be used to buy a pension income for life.

**If you joined the TSRF for the first time after 1 March 2024**

Your "savings pot" will be paid in cash  
PLUS  
Your "retirement pot" will be used to buy a pension income for life.

### Call to Action

**The Fund will keep you updated on the approval of the Fund's Rule Amendment to allow for these changes. Only when approval has been received from the FSCA will the Fund notify members after 1 March 2024 on the "savings withdrawal" procedure and the form members will need to complete to make a "savings withdrawal".**

